[JOINT COMMITTEE PRINT]

ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1984-1989

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report on tax expenditures is prepared for the House Committee on Ways and Means and the Senate Committee on Finance, and it is submitted by the Joint Committee on Taxation to the House and Senate Committees on the Budget. As in the case of earlier reports,[1] the estimates in this report were prepared with the cooperation of the staff of the Office of Tax Analysis in the Treasury Department. The first two reports were prepared at the request of the conferees on the Revenue Act of 1971 that tax expenditure data be submitted regularly to Congress by the Joint Committee staff. The last report was published in March 1983 for submission to the Committees on the Budget.

On February 1, 1984, the Administration published its estimates of tax expenditures for fiscal years 1983–1985 in Special Analysis G of the Budget for fiscal year 1985.[2]

This report covers estimates of tax expenditures for fiscal years 1984–1989. The tax expenditure items included in this pamphlet and in Special Analysis G are virtually identical; differences are discussed in Part II under the heading "Comparisons with Special Analysis G." The tax expenditure report by the Congressional Budget Office (CBO), which usually is published in the Fall, tends to contain the same listings as this publication. The staff of the Joint Committee made its estimates (as shown in Table 1) in terms of the provisions in tax law as enacted through December 31, 1983, and assumed that the expiration dates which apply to some provisions would not be extended or otherwise modified. Changes in tax expenditure estimates that result from tax legislation enacted in 1984 are shown in a separate table. However, provisions are not listed if their effect on revenue results only from taxpayer activity in prior years. For example, although taxpayers are currently entitled to carryovers of the general jobs credit, it is not listed as a tax expenditure because only wages paid in 1977 and 1978 were eligible for the credit.

Part I of this report contains a discussion of the concept of tax expenditures, and it is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1984–1989, under tax law prior to 1984 legislation,

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[1] *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, and March 7, 1983.

[2] *"Tax Expenditures,"* Special Analysis G, *The Budget of the United States Government for Fiscal Year 1985.*

are presented in tables 1 and 2 in Part III. Table 3 presents the changes in tax expenditure estimates, by budget function, that resulted from tax legislation enacted in 1984.[3] Table 4 shows the that have not yet been classified by budget function or separated by impact on corporations and individuals.

[3] The Deficit Reduction Act of 1984 (P.L. 98-369), the Retirement Equity Act of 1984 (P.L. 98-397), Group Legal Services Act of 1984 (P.L. 98-612), and Educational Benefits Act of 1984 (P.L. 98-611).

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditure estimates measure the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. The term tax expenditure is derived from the assumption that the goals of these favorable tax provisions could be accomplished by replacing them with direct expenditure programs. Tax expenditures, in this view, are analogous to those direct expenditures which have no program spending limits, and which are available as entitlements to individuals and corporations who meet the criteria established for the programs. As in an entitlement program, any taxpayer who meets the criteria specified in the Internal Revenue Code may use the provision without any further action by the Federal Government. Tax expenditure provisions, unlike direct spending programs, are administered by the Internal Revenue Service.

From the viewpoint of the budget process, fiscal policy and the allocation of resources, uncontrollable outlays or revenue losses restrict the range of adjustments that can be made in public policy. Budget documents present details about current and proposed spending programs, and tables of Federal tax receipts simply present the amount of revenue derived from specific taxes, e.g., the individual income tax, corporation income tax, excise taxes, and social security taxes, without any information about revenues foregone because of tax expenditure items. One of the initial purposes of the listing of tax expenditures was to provide Congress with the information it would need to select between a tax or an outlay approach to accomplish a given goal of public policy.

In this report, the staff followed the definition of tax expenditures that appears in the Congressional Budget Act: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a "normal" tax structure, and it also refers to the first two tax expenditure pamphlets prepared by the Joint Committee staff in which the "normal" tax structure was used as the reference point. Under the individual income tax, this normal tax structure includes a single personal exemption for each taxpayer and one for each dependent; the zero bracket amount, which serves as a general minimum standard deduction for all taxpayers; the progressive tax rate structure; the exclusions for various types of imputed

income, such as the rental value of owner-occupied homes; and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tool that a mechanic purchases for use on his job. Analogously, the normal tax structure of the corporation income tax includes deductions for the costs incurred in producing income, including depreciation. However, it does not include the graduated tax rate structure on the grounds that those provisions are intended as a way of providing tax relief to small corporations.

The staff acknowledges that its concept of a normal tax structure may err on the side of being too narrow and that its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a *de minimis* amount. The staff emphasizes, however, that in the process of listing tax expenditure items no judgment is made, nor any inference intended, about the desirability of any special provision as public policy, or about the effectiveness of the tax approach relative to other methods available to the Federal Government for achieving the particular public policy goals intended.

As defined in the Congressional Budget Act, the concept of tax expenditure refers to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds and credits, such as gasoline tax exemptions for nonhighway uses. The staff is studying whether it would be useful to expand the coverage of tax expenditures to types of taxes other than income taxes.

Special Analysis G (in the Budget for fiscal year 1985) has reported two estimates of tax expenditures—revenue loss and outlay equivalents. In this report, only revenue loss estimates are reported, since this conforms with the requirement in the Congressional Budget Act that the Joint Committee is to report revenue losses from tax expenditures. The outlay equivalent of a tax expenditure is the size of the outlay which would be needed to produce the after-tax equivalent of the benefits obtained from the tax expenditure. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the taxable income of the beneficiaries of the program. The outlay equivalent measure is useful in comparing tax expenditures with outlay programs.

Individual income tax

The staff does not include as tax expenditures either the zero bracket amount or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing and shelter. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the zero bracket amount.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for moving expenses,

employee business expenses, investment expenses, and business-related travel expenses. Itemized deductions for nonmortgage interest are listed as a tax expenditure only to the extent that those deductions exceed investment income. This treatment of interest represents a change from years prior to 1983, when a separate tax expenditure was listed for consumer interest, defined as interest incurred on installment loans, credit card loans and other consumer loans. Because money is fungible, the staff believes that it is improper to classify interest based solely on the character of the lender or the type of loan; therefore, this report, in effect, assumes that all nonmortgage interest is investment interest (and hence, not a tax expenditure) to the extent it does not exceed investment income and that all remaining itemized interest is classified as a tax expenditure.

The new provisions for capital gains treatment on incentive stock options, which were enacted in the Economic Recovery Tax Act of 1981, are not treated as a tax expenditure. Even though these represent deviations from a normal individual income tax structure, the revenue loss from capital gains treatment is offset by the revenue gain resulting from the fact that the employer loses his deduction when employee compensation is paid in the form of incentive stock options.

The failure to tax imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as, in measuring gross national product. However, measurement of the imputed income for income tax purposes would present severe administrative problems, and its exclusion from taxable income is as much an administrative necessity as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; among the others are the income that could be imputed to household furniture and appliances, books, and art collections, and automobiles. If all the imputed items were included in adjusted gross income, however, it would be proper to include all interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income. Thus, in effect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for not listing the exclusion of imputed income on durable assets.

Comparison with Special Analysis G.—There are a few differences between the tax expenditure lists in Special Analysis G, table G–2, and the list in table 1 of this publication. The Joint Committee pamphlet lists as a tax expenditure the deductibility of patronage dividends and certain other items of cooperatives; this item appears in the Agriculture function. Special Analysis G includes as an Income Security item the income of trusts to finance supplementary unemployment benefits.

The staff analysis also differs from Special Analysis G in its treatment of capital gains at death. The estimate in this report is computed as the tax that would be paid if the excess of the fair market value of property owned by decedents over the purchase price were included in the decedent's taxable income. The estimate

in Special Analysis G is the tax that would be paid, if the heir carried over the basis of the decedent.

Business income taxation

For business income, taxed under both the individual and corporate income taxes, the most difficult issues in defining tax expenditures relate to capital costs, which are costs not properly allocable to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit cost recovery deductions on equipment under some form of accelerated depreciation over the estimated useful life of the asset. For structures, it is assumed that the normal tax structure would involve straight-line depreciation over the estimated useful life. The tax law applicable to pre-1981 depreciable equipment permitted taxpayers to shorten tax lives for purposes of computing depreciation deductions by up to 20 percent under the Asset Depreciation Range (ADR) system. This ADR variance is considered a tax expenditure. Providing investment incentives through allowing investors to depreciate property over periods shorter than the expected useful lives was carried further with enactment of the Accelerated Cost Recovery System (ACRS). Under this provision, statutory cost recovery periods were established for both equipment and structures, generally without regard to the expected useful life of the property. Shortened useful lives under ACRS and ADR are treated as a tax expenditure in this report to the extent that it provides cost recovery deductions in excess of what is assumed to be the normal tax structure.

One of the problems with the definition of the depreciation tax expenditure is that it neglects the effect of inflation in eroding the real value of depreciation deductions. Even with accelerated depreciation, taxpayers will not always receive deductions whose real value corresponds to the amount they originally paid for the asset. A similar problem arises in the definition of the tax expenditure for capital gains. The staff is studying whether to alter the definitions of these and other tax expenditures to take account of the distortions caused by inflation.

Finance leasing, as enacted in the 1982 Tax Act, is classified as a separate tax expenditure.

The foreign tax credit is not classified here as a tax expenditure because it is considered a way of taking into account the interrelationship of domestic and foreign tax systems and avoiding double taxation. In addition, this analysis does not attempt to go behind the treatment as income taxes by U.S. taxpayers of payments to foreign governments as income taxes, i.e., it does not attempt to determine whether such payments claimed as foreign tax credits satisfy the requirements of creditability.

II. MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The amount of a deduction is added back into taxable income, which raises its level. The difference between the estimates of tax liabilities under present law, which provides for the deduction, and the higher level of tax liabilities under the assumption that the provision does not exist is the amount of the tax expenditure. For this computation, it is assumed that nothing else changes.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why totals for table 1 are shown only in a footnote.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated: whether it would involve direct expenditures, direct loans, or loan guarantees; or whether it would involve a different form of a tax expenditure, or a general reduction in tax rates. If any of these provisions would be repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy, but the estimates of tax expenditures do not anticipate such policy responses.

Year-to-year differences in the estimates for each tax expenditure may be explained by change in tax law, e.g., the reduction in marginal tax rates and the indexing provision enacted in the Economic Recovery Tax Act of 1981, which affect the estimates for successive years. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of inflation, changed economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

III. TAX EXPENDITURE ESTIMATES UNDER PRE-1984 TAX LAW

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the tax expenditures are grouped in Table 1 in the same functional categories as outlays in the federal budget. Estimates are shown separately for individuals and corporations. Some tax expenditures do not fit clearly into any of the budget functional categories, and they have been placed in the functional category which is the most appropriate.

Table 2 provides estimates by expanded income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the distribution. Tables 1 and 2 assume the tax laws as enacted through December 31, 1983. Where possible, the changes in tax expenditure estimates that resulted from tax legislation enacted in 1984 are shown in table 3, as classified by budget function.[1] Table 4 shows the revenue effect of those provisions enacted in 1984 which affect tax expenditure items but have not yet been classified among tax expenditure items, budget functions, or type of taxpayer for technical reasons.[2]

[1] See footnote 3 on p. 2 for the 1984 tax legislation which produced changes in tax expenditure estimates.

[2] For a more detailed explanation, refer to table 4 and the accompanying footnotes.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
National defense:												
Exclusion of benefits and allowances to Armed Forces personnel	.....	.....	.....	.....	.....	.....	1,895	2,030	2,170	2,300	2,430	2,560
Exclusion of military disability pensions	.....	.....	.....	.....	.....	.....	125	125	130	140	145	155
International affairs:												
Exclusion of income earned abroad by United States citizens	.....	.....	.....	.....	.....	.....	1,300	1,405	1,475	1,550	1,625	1,710
Deferral of income of domestic international sales corporation (DISC)	1,390	1,195	920	810	820	895	.....	.....	.....	.....	.....	.....
Deferral of income of controlled foreign corporations	345	375	390	420	455	495	.....	.....	.....	.....	.....	.....
General science, space, and technology:												
Expensing of research and development expenditures	3,000	3,100	3,185	3,265	3,345	3,430	120	125	130	135	135	140
Credit for increasing research activities	1,470	1,740	985	480	260	130	15	20	10	.....	.....	.....
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	60	([5])	.....	.....	.....	.....	([5])	.....	.....	.....	.....	.....
Energy:												
Expensing of exploration and development costs:												
Oil and gas	755	1,075	1,400	1,640	1,845	2,065	1,055	1,135	1,270	1,415	1,575	1,755
Other fuels	30	35	35	40	40	45	.....	.....	.....	.....	.....	.....

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Excess of percentage over cost depletion:												
Oil and gas	330	335	320	340	360	380	885	805	820	855	910	960
Other fuels	350	355	380	410	440	470	15	15	15	15	20	20
Capital gains treatment of royalties from coal	35	40	40	45	50	55	125	140	160	175	195	215
Alternative fuel production credit	10	25	25	30	30	35	.....	.....	.....	.....	.....	.....
Alcohol fuel credit [2]	5	5	5	5	5	([3])	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government industrial development bonds for energy production facilities	100	120	135	155	175	190	50	60	70	80	95	110
Residential energy credits:												
Supply incentives	.....	.....	.....	.....	.....	.....	370	470	555	110	.....	.....
Conservation incentives	.....	.....	.....	.....	.....	.....	260	305	260	.....	.....	.....
Alternative, conservation, and new technology energy property credits:												
Supply incentives	200	175	100	35	20	5	10	5	.....	.....	.....	.....
Conservation incentives	35	15	5	([3])	.....	.....	([3])	([3])	.....	.....	.....	.....
Energy credit for intercity buses	5	5	([3])	.....	.....	.....	.....	.....	.....	.....	.....	.....
Natural resources and environment:												
Expensing of exploration and development costs, nonfuel minerals	60	65	75	80	85	90	([3])	([3])	([3])	([3])	([3])	([3])
Excess of percentage over cost depletion, nonfuel minerals	315	365	415	460	515	570	15	15	15	20	20	25
Capital gains treatment of certain timber income	395	490	560	605	650	695	135	175	200	220	235	255

Investment credit and 7-year amortization for reforestation expenditures	(2)	(2)	(2)	(2)	(2)	(2)	10	10	10	10	10	10
Capital gains treatment of iron ore	10	10	10	10	10	10	10	10	10	10	15	15
Exclusion of interest on State and local government bonds for pollution control and sewage and waste disposal facilities	1,175	1,285	1,415	1,560	1,725	1,885	580	635	700	770	860	945
Tax incentives for preservation of historic structures	115	130	150	170	195	225	205	250	290	330	380	435
Agriculture:												
Expensing of certain capital outlays	70	70	75	80	80	85	380	400	425	455	485	515
Capital gains treatment of certain income	35	35	40	40	40	45	610	640	670	705	740	780
Deductibility of patronage dividends and certain other items of cooperatives	980	1,010	1,040	1,075	1,110	1,140	−400	−410	−425	−435	−450	−460
Commerce and housing:												
Dividend exclusion	.....	.....	.....	.....	.....	.....	465	455	460	480	495	505
Reinvestment of dividends in stock of public utilities	.....	.....	.....	.....	.....	.....	415	450	280	.....	.....	.....
Net interest exclusion	.....	.....	.....	.....	.....	.....	.....	1,025	2,860	3,100	3,370	3,640
Exclusion of interest on State and local government industrial development bonds	2,735	3,125	3,635	4,075	4,175	4,115	665	740	835	925	955	955
Exemption of credit union income	160	185	200	215	235	255	.....	.....	.....	.....	.....	.....
Exclusion of interest on life insurance savings	.....	.....	.....	.....	.....	.....	4,720	5,180	5,695	6,240	6,840	7,510
Excess bad debt reserves of financial institutions	550	795	875	990	1,020	1,080	.....	.....	.....	.....	.....	.....
Deductibility of nonmortgage interest in excess of investment income	.....	.....	.....	.....	.....	.....	6,570	6,950	7,480	8,130	8,890	9,630
Deductibility of mortgage interest on owner-occupied homes	.....	.....	.....	.....	.....	.....	23,480	25,460	28,610	32,090	35,830	39,810

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Deductibility of property tax on owner-occupied homes							8,775	9,640	10,770	12,180	13,720	15,375
Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,245	1,260	1,230	1,220	1,220	1,235	540	560	545	535	530	530
Exclusion of interest on State and local government housing bonds for rental housing	735	920	1,130	1,355	1,590	1,835	360	445	555	655	780	900
Deferral of capital gains on home sales							4,895	5,625	6,000	6,480	7,030	7,550
Exclusion of capital gains on home sales for persons age 55 and over							1,630	1,875	2,000	2,160	2,345	2,515
Accelerated depreciation on rental housing	155	165	170	180	185	185	660	710	730	755	790	820
Accelerated depreciation on buildings other than rental housing	195	210	235	255	285	310	145	165	180	200	215	230
Accelerated depreciation on equipment other than leased property	10,165	18,925	17,980	14,985	13,895	14,125	1,080	2,870	2,865	2,290	1,880	1,760
Finance leasing	85	435	995	1,530	1,550	1,280						
Amortization of business start-up costs	20	25	30	35	40	50	160	230	275	330	395	475
Capital gains other than agriculture, timber, iron ore and coal	2,285	2,515	2,760	2,985	3,195	3,520	17,475	18,485	20,390	22,150	24,000	25,990
Capital gains at death							3,860	4,355	4,940	5,530	6,125	6,615
Reduced rates on the first $100,000 of corporate income	6,740	7,580	8,660	3,420	9,795	10,150						

Investment credit, other than ESOPs, rehabilitation of structures, reforestation, leasing and energy property	24,030	29,355	32,625	34,860	37,815	41,310	4,820	5,445	5,850	6,350	6,940	7,610
Transportation:												
Amortization of motor carrier operating rights	70	50	15	5	(5)	.....	5	5	5	(5)	.....	.....
Deferral of tax on shipping companies	40	45	70	100	125	140	.....	.....	.....	.....	.....	.....
Exclusion of interest on State and local government mass transit bonds	75	85	80	75	85	125	35	40	40	35	40	65
Community and regional development:												
Five-year amortization for housing rehabilitation	25	25	25	20	20	15	35	35	35	30	25	20
Investment credit for rehabilitation of structures other than historic structures	200	185	220	265	320	385	165	160	190	230	275	330
Private airport, dock, and convention facility bonds	305	350	405	460	520	565	150	175	200	240	275	315
Education, training, employment, and social services:												
Exclusion of scholarship and fellowship income	.....	.....	.....	.....	.....	.....	565	570	550	550	565	580
Exclusion of interest on State and local government student loan bonds	260	355	470	580	690	790	120	170	230	285	340	390
Exclusion of interest on State and local government bonds for private educational facilities	255	315	380	445	510	580	120	150	180	215	250	280
Parental personal exemption for students age 19 or over	.....	.....	.....	.....	.....	.....	980	1,020	1,100	1,185	1,270	1,345
Exclusion of employee meals and lodging (other than military)	.....	.....	.....	.....	.....	.....	725	795	870	945	1,030	1,120
Exclusion of contributions to prepaid legal services plans	.....	.....	.....	.....	.....	.....	40	15	.....	.....	.....	.....

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Exclusion for employer provided child care							40	70	110	135	155	175
Tax credit for ESOPs	1,430	2,295	3,095	3,585	2,270	975						
Deductibility for charitable contributions for education	345	360	415	480	525	550	705	810	960	925	905	965
Deductibility for charitable contributions, other than education and health	425	445	515	590	645	680	9,635	11,055	13,100	12,620	12,390	13,195
Credit for child and dependent care expenses							1,695	1,905	2,150	2,410	2,675	2,945
Targeted jobs credit	455	470	380	210	110	50	95	35	(5)			
Deduction for two-earner married couples							5,835	6,350	6,935	7,600	8,460	9,420
Deduction for adoption expenses							10	10	10	10	10	10
Cafeteria plans							25	75	240	725	1,650	2,690
Health:												
Exclusion of employer contributions for medical insurance premiums and medical care							17,625	20,165	22,965	26,210	29,910	34,110
Deductibility of medical expenses							3,150	3,410	3,730	4,145	4,600	5,055
Exclusion of interest on State and local government bonds for hospital facilities	825	1,025	1,230	1,440	1,655	1,870	390	490	590	695	800	910
Deductibility of charitable contributions for health							1,410	1,620	1,915	1,845	1,815	1,930
Tax credit for orphan drug research	15	15	15	15	10							

Income security:						
Exclusion of untaxed social security benefits:						
Disability insurance benefits	1,225	1,105	1,120	1,145	1,165	1,190
OASI benefits for retired workers	13,895	12,975	13,695	14,400	15,025	15,515
Benefits for dependents and survivors	3,755	3,765	3,970	4,195	4,425	4,650
Exclusion of untaxed railroad retirement system benefits	615	450	460	465	475	480
Exclusion of workmen's compensation benefits	2,020	2,215	2,435	2,680	2,950	3,245
Exclusion of special benefits for disabled coal miners	155	155	155	155	155	160
Exclusion of untaxed unemployment insurance benefits	2,305	1,800	1,680	1,575	1,450	1,390
Exclusion of public assistance benefits	495	510	520	535	560	555
Exclusion of disability pay [4]	75	.....	.....	.....	.....	.....
Net exclusion of pension contributions and earnings:						
Employer plans	47,245	52,670	58,985	66,065	73,995	82,875
Plans for self-employed	1,475	1,530	1,645	1,725	1,770	1,890
Individual retirement plans	9,190	9,840	10,945	11,890	12,705	13,870
Exclusion of other employee benefits:						
Premiums on group term life insurance	2,170	2,380	2,615	2,880	3,165	3,480
Premiums on accident and disability insurance	120	125	130	135	140	150
Additional exemption for the blind	30	30	30	30	30	30
Additional exemption for elderly	2,325	2,450	2,560	2,730	2,870	3,040
Elderly and disabled credit [4]	145	210	200	190	180	170
Deductibility of casualty and theft losses	370	415	515	580	655	735
Earned income credit [6]	315	285	250	170	130	120
Veterans benefits and services:						
Exclusion of veterans disability compensation	1,810	1,855	1,930	2,015	2,100	2,190

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Exclusion of veterans pensions							335	340	345	350	360	365
Exclusion of GI bill benefits							130	115	100	90	80	70
General government:												
Credits and deductions for political contributions							200	220	220	230	240	250
General purpose fiscal assistance:												
Exclusion of interest on general purpose State and local government debt	7,745	8,740	9,785	10,855	11,950	13,065	3,765	4,255	4,775	5,305	5,850	6,405
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes							19,840	21,635	25,510	28,690	32,030	35,590
Tax credit for corporations receiving income from doing business in U.S. possessions	1,075	1,135	1,240	1,375	1,525	1,695						
Exclusion of possessions source income	1,310	1,440	1,585	1,740	1,915	2,110						
Interest:												
Deferral of interest on savings bonds							720	770	825	885	945	1,010

Footnotes to table 1:

[1] All estimates are based on the tax law enacted through December 31, 1983.

[2] In addition, the $0.05/gallon exemption from the excise tax for alcohol fuel results in a reduction in excise tax receipts, net of income tax effect, of approximately $145 million for 1984, $150 million for 1985, $160 million for 1986, $175 million for 1987, $185 million for 1988 and $60 million for 1989.

[3] Less than $1 million.

[4] The disability pay exclusion was replaced with a credit in the 1983 Social Security Act.

[5] Less than $5 million.

[6] The figures in the table indicate the effect of the earned income credit on receipts. The increase in outlays is $1,070 million in 1984, $990 million in 1985, $955 million in 1986, $935 million in 1987, $880 million in 1988, and $755 million in 1989.

Sum of Tax Expenditure Items by Type of Taxpayer, Fiscal Years, 1984–89

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1984	321,995	75,230	246,765
1985	365,145	94,885	270,260
1986	404,155	102,155	302,000
1987	435,685	106,100	329,585
1988	471,575	110,130	361,445
1989	513,825	115,985	397,840

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in Table 1. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels

[Amounts in millions of dollars; returns in thousands]

Expanded income class (thousands) [1]	Age exemption		Blind exemption		Dividend exclusion	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	329	28	0	0	204	2
$5 to $10	2,597	366	53	6	1,001	15
$10 to $15	1,905	363	31	4	1,179	22
$15 to $20	1,162	270	18	3	1,055	24
$20 to $30	1,350	397	20	4	1,833	57
$30 to $50	1,038	400	33	9	3,005	129
$50 to $100	450	251	5	2	1,708	106
$100 to $200	135	93	1	0	504	36
$200 and over	52	38	0	0	187	14
Total	**9,018**	**2,207**	**160**	**28**	**10,675**	**405**

Footnotes at end of table.

Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels

Expanded income class (thousands) [1]	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $5	68	2	240	5
$5 to $10	518	81	1,270	63
$10 to $15	910	187	1,476	155
$15 to $20	1,305	246	2,522	258
$20 to $30	2,450	538	6,581	901
$30 to $50	2,189	704	9,536	2,474
$50 to $100	422	422	3,204	1,772
$100 to $200	38	120	572	642
$200 and over	7	150	168	360
Total	**7,906**	**2,451**	**26,070**	**6,630**

Footnotes at end of table.

Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels—Continued

Expanded Income Class (thousands) [1]	State and local income tax deduction		State and local sales tax deduction		Home mortage interest deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	287	2	431	8	701	31
$5 to $10	1,394	26	1,660	43	2,278	193
$10 to $15	1,962	97	2,349	84	2,474	383
$15 to $20	2,718	216	2,991	154	2,740	764
$20 to $30	6,797	1,197	7,628	615	6,443	3,241
$30 to $50	9,378	3,834	10,236	1,476	8,742	7,596
$50 to $100	3,071	3,348	3,340	908	2,631	4,373
$100 to $200	546	1,765	597	279	418	1,208
$200 and over	157	1,731	174	128	117	438
Total	**26,310**	**12,246**	**29,406**	**3,695**	**26,550**	**18,227**

Footnotes at end of table.

Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels—Continued

Expanded income class (thousands) [1]	Deductibility of nonmortgage interest in excess of investment income		Charitable contributions deduction [2]		Casualty loss deduction	
	Returns	Amount	Returns	Amount	Returns	Amount
Below $5	274	3	224	2	3	0
$5 to $10	1,060	34	1,559	47	12	2
$10 to $15	1,290	104	2,374	142	35	8
$15 to $20	1,897	238	3,108	274	26	8
$20 to $30	5,002	1,121	7,511	958	52	60
$30 to $50	6,198	2,325	10,194	2,480	31	66
$50 to $100	1,315	1,029	3,457	2,059	29	97
$100 to $200	184	392	673	1,220	5	33
$200 and over	58	232	217	2,657	2	32
Total	**17,278**	**5,477**	**29,317**	**9,837**	**196**	**313**

Footnotes at end of table.

Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels—Continued

Expanded income class (thousands) [1]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $5	0	0	1,640	488
$5 to $10	265	51	3,771	1,079
$10 to $15	405	140	41	9
$15 to $20	619	200	3	0
$20 to $30	1,495	496	4	1
$30 to $50	1,717	530	1	0
$50 to $100	320	116	0	0
$100 to $200	21	9	0	0
$200 and over	4	2	0	0
Total	**4,845**	**1,543**	**5,461**	**1,577**

Footnotes at end of table.

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are presented in tables 1 and 2 in Part III. Table 3 presents the changes in tax expenditure estimates, by budget function, that resulted from tax legislation enacted in 1984.[3] Table 4 shows the that have not yet been classified by budget function or separated by impact on corporations and individuals.

ESTIMATED REVENUE EFFECT OF 1984 TAX PROVISIONS

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1984–1989 [1]—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Deductibility of property tax on owner-occupied homes							8,775	9,640	10,770	12,180	13,720	15,375
Exclusion of interest on State and local government housing bonds for owner-occupied housing	1,245	1,260	1,230	1,220	1,220	1,235	540	560	545	535	530	530
Exclusion of interest on State and local government housing bonds for rental housing	735	920	1,130	1,355	1,590	1,835	360	445	555	655	780	900
Deferral of capital gains on home sales							4,895	5,625	6,000	6,480	7,030	7,550
Exclusion of capital gains on home sales for persons age 55 and over							1,630	1,875	2,000	2,160	2,345	2,515
Accelerated depreciation on rental housing	155	165	170	180	185	185	660	710	730	755	790	820
Accelerated depreciation on buildings other than rental housing	195	210	235	255	285	310	145	165	180	200	215	230
Accelerated depreciation on equipment other than leased property	16,470	18,925	17,980	14,985	13,895	14,125	2325	2,870	2,865	2,290	1,880	1,760
Finance leasing	85	435	995	1,530	1,550	1,280						
Amortization of business start-up costs	20	25	30	35	40	50	160	230	275	330	395	475
Capital gains other than agriculture, timber, iron ore and coal	2,285	2,515	2,760	2,985	3,195	3,520	17,475	18,485	20,390	22,150	24,000	25,990
Capital gains at death							3,860	4,355	4,940	5,530	6,125	6,615
Reduced rates on the first $100,000 of corporate income	6,740	7,580	8,660	9,420	9,795	10,150						

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Sum of Tax Expenditure Items by Type of Taxpayer, Fiscal Years, 1984–89

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
	329,545	81,535	248,010
1984	365,145	94,885	270,260
1985	404,155	102,155	302,000
1986	435,685	106,100	329,585
1987	471,575	110,130	361,445
1988	513,825	115,985	397,840
1989			

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in Table 1. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

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Table 2.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1984 Rates and 1982 Income Levels—Continued

Expanded income class (thousands) [1]	Political contribution credit		Capital gains exclusion	
	Returns	Amount	Returns	Amount
Below $5	10	0	33	2
$5 to $10	177	7	343	52
$10 to $15	332	13	496	137
$15 to $20	410	18	527	212
$20 to $30	724	37	848	545
$30 to $50	1,066	57	1,520	1,857
$50 to $100	582	34	1,106	3,529
$100 to $200	159	11	355	2,890
$200 and over	71	6	141	6,195
Total	**3,531**	**183**	**5,368**	**15,417**

Footnotes to table 2:

*Less than $500,000 or 500 returns.

[1] Expanded income equals adjusted gross income plus minimum tax preferences (mostly excluded capital gains) less investment interest expense to the extent of investment income.

[2] This distribution is subject to substantially higher sampling variability than most of the others.

[3] Includes the refundable portion of the earned income credit.

Table 3.—Changes in Tax Expenditure Estimates from the Deficit Reduction Act of 1984 and Other 1984 Tax Legislation, by Budget Function, Fiscal Years 1984–1989

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
International affairs:												
Exclusion of income earned abroad by United States citizens							−4	−31	−80	−106	−107	−79
Deferral of income of domestic international sales corporation (DISC)		62	62	−19	−80	−131						
Deferral of income of controlled foreign corporations	−26	−44	−46	−49	−51	−54						
General science, space, and technology:												
Suspension of regulations relating to allocation under section 861 of research and experimental expenditures	16	127	16									
Energy:												
Capital gains treatment of royalties from coal		−2	−10	−15	−17	−18						
Commerce and housing:												
Net interest exclusion								−1,024	−2,858	−3,100	−3,366	−3,637
Exclusion of interest on State and local government housing bonds for owner-occupied housing	42	167	341	503	588	544	6	50	157	307	429	456
Deferral of capital gains on home sales							(1)	5	5	5	5	5
Accelerated depreciation on equipment other than leased property	−150	−207	−240	−181	116	227	−80	−192	−193	−205	2	200

Finance leasing	−63	−348	−862	−1,381	−1,424	−741						
Amortization of business start-up costs								−23	−36	−31	−26	−19
Capital gains other than agriculture, timber, iron ore, and coal		−27	−54	−71	−94	−125			−21	−28	−37	−48
Reduced rates on the first $100,000 of corporate income	−70	−212	−185	−190	−192	−194						
Investment credit, other than ESOPs, rehabilitation of structures, reforestation, leasing and energy property		−19	−36	−37	−16			−25	−68	−75	−49	
Community and regional development:												
Five-year amortization for housing rehabilitation	1	3	7	13	17	14	1	4	11	19	26	20
Education, training, employment, and social services:												
Exclusion of contributions to prepaid legal services plans [2]								39	16			
Employer Educational Assistance [3]								108	23			
Tax credit for ESOPs		−322	−593	−757	−495	−274						
Deductibility for charitable contributions, other than education and health								10	42	48	56	65
Cafeteria plans							23	29	3			
Health:												
Deductibility of medical expenses							1	7	10	10	11	12
Income security:												
Net exclusion of pension contributions and earnings: [4]												
Employer plans								35	56	25	−12	−14
Deductibility of casualty and theft losses							15	12	12	13	13	14
Earned income credit [5]								4	116	105	98	90
Targeted jobs credit		125	325	260	135	80		20	55	45	25	15
General purpose fiscal assistance:												

Footnotes at end of table.

Table 3.—Changes in Tax Expenditure Estimates from the Deficit Reduction Act of 1984 and Other 1984 Tax Legislation, by Budget Function, Fiscal Years 1984–1989—Continued

[Millions of dollars]

Function	Corporations						Individuals					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes								−229	−253	−274	−300	−330

Footnotes to table 3:

[1] Negligible.

[2] Contained in Group Legal Services Act of 1984 (P.L. 98–612).

[3] Contained in Educational Benefits Act of 1984 (P.L. 98–611).

[4] Includes the effects of H.R. 4280 (P.L. 98–397) The Retirement Equity Act of 1984.

[5] The changes to the earned income credit will increase outlays by $9 million in 1985, $257 million in 1986, $237 million in 1987, $217 million in 1988, and $200 million in 1989.

Sum of the Changes to Tax Expenditure Items by Type of Taxpayer, Fiscal Years, 1984–89

[In millions of dollars]

Fiscal year	Corporations and individuals	Corporations	Individuals
1984	−288	−250	−38
1985	−1,898	−697	−1,201
1986	−4,278	−1,275	−3,003
1987	−5,166	−1,924	−3,242
1988	−4,745	−1,513	−3,232
1989	−3,922	−672	−3,250

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the items included in Table 3. The limitations on the use of the totals are explained in the text.

Source: Staffs of the Joint Committee on Taxation and the Treasury Department.

Table 4.—Estimated Revenue Effect of Additional Items From 1984 Tax Legislation That Have a Significant Impact on Tax Expenditures, Fiscal Years 1984–89 [1]

[Millions of dollars]

Provision	1984	1985	1986	1987	1988	1989
Tax-exempt entity leasing	264	800	1,553	2,840	4,711	6,724
Market discount and discount on short-term obligation	50	307	243	246	249	158
Original issue discount on tax-exempt bonds	3	5	7	8	10	13
Increase in reduction of certain corporate tax preference items from 15 percent to 20 percent		236	357	400	449	512
Tax straddles	22	427	152	70	58	45
Depreciation of real property	55	291	786	1,478	2,244	3,043
Limitations with respect to property which is partially used for personal purposes and luxury automobiles	48	150	233	269	279	286
Life insurance tax provisions	−80	−315	−375	−469	−541	−626
Private activity bonds; misc. provisions	−25	−14	139	274	261	256
Capital gains and losses	(2)	(2)	−279	−268	−286	−280
Welfare benefit plans	63	188	217	222	242	280

Footnotes to table 4:

[1] For each of the estimates provided in this table additional research is required to determine one or both of the following: (1) the proper allocation of the tax expenditure component between two or more categories and (2) the appropriate interaction of the provision with the estimates of various existing tax expenditures items. A comprehensive analysis incorporating all items will be available in the Joint Committee's next report on tax expenditures to be published in early 1985.

[2] Loss of less than $10,000,000.

NOTE.—Positive amounts represent revenue increases or reductions in tax expenditures; negative amounts represent revenue decreases or increases in tax expenditures.